Monthly Newsletter

KANDOR GLOBAL

August 2022

Any hope that softer inflation and slower growth data would cause the Fed to pivot from its hiking schedule quickly evaporated in August. Chairman Powell reiterated the Fed's hawkish stance and its commitment to bring down inflation above most other factors at the Jackson Hole Economic Symposium late in the month. He went so far as to indicate that some 'pain' might be required to accomplish its goals, suggesting that the Fed's efforts could come at the expense of growth and employment. The Fed and many other central banks' reaffirmed commitments to stifling inflation, even at the expense of growth, sent shivers through risk asset markets. In a not-so-quiet August, stocks and bonds fell as yields rose and volatility was heightened.

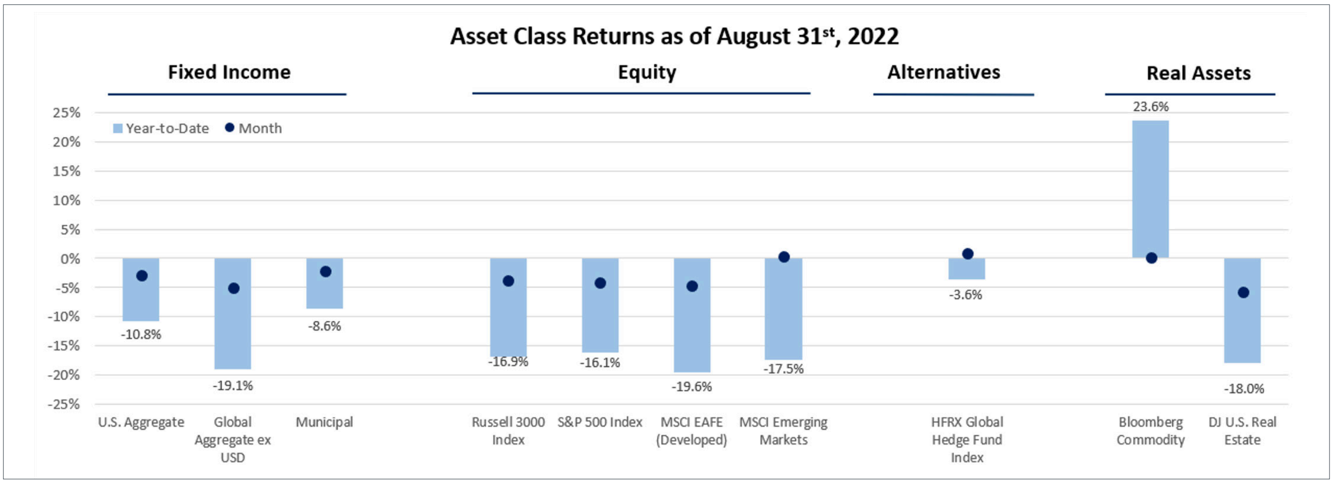
Economic data continued to show that growth was slowing, although some indicators were better than expected. In the U.S., employment remained a strong suit of the economy yet the pace of both job and wage growth increases has leveled off. Flash composite PMIs demonstrated that activity waned, and recessions risks were still elevated. After an extensive period of strength following the pandemic, the housing market meaningfully slowed. Near-6% 30-year fixed-rate mortgages have contributed to falling new and existing home sales and lower prices. Within Europe, the war in Ukraine showed few signs of ending with continued ramifications across local economies. Perhaps most notable, Russian gas exports to Europe were extensively cut back or halted pushing prices to new highs and leading to even greater challenges approaching the winter months. Higher commodity and energy prices are already weighing on European sentiment and economic activity as evidenced by indicators and currency weakness.

Inflation is finally showing signs of peaking, as U.S. CPI fell to 8.5% in July, from an over 40-year high in June (9.1%). While a potential peak in inflation is encouraging, core inflation continues to be well above the Fed's target levels paving the way for another sizeable rate increase at the September policy meeting. At the time of this writing, the CME futures market was predicting that another 75-basis point rate increase was more likely than not. Hawkish actions of the Fed have led to U.S. dollar strength, which is now at its highest level relative to a basket of other major world currencies in approximately 20 years.
Maybe a welcome surprise to domestic vacationers in Europe, a stronger dollar has a variety of global economic implications and can contribute to greater currency instability – especially in emerging markets.

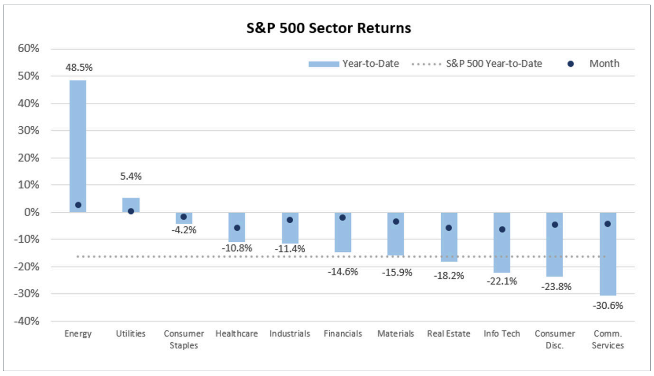
Global equity markets gave back a sizeable portion of the gains realized in July. Developed international stocks suffered the largest losses, although U.S. equities weren't much ahead. Emerging market equities fared better – bolstered by Chinese stocks. Within the U.S. market, earnings expectations declined which contributed to broad-based losses. According to FactSet, nine of the eleven S&P 500 sectors experienced declining earnings expectations for the third quarter of 2022 which also dragged down full-year earnings estimates. Only the energy and utilities sectors generated a positive result while IT and consumer discretionary securities added to already sizeable year-to-date losses. Growth shares fell more than value stocks, a trend that has been persistent throughout the year.

Fixed income markets also declined – doing little to buffer losses from elsewhere in the portfolio. Rates rose meaningfully across the curve, especially at the short end. At nearly 3.5%, the 2-year Treasury yield is now at its highest level in roughly 15 years. Rising rates dragged down the performance of any duration-sensitive exposure. Credit also underperformed, as spreads widened along with higher rates. Municipals declined but outperformed Treasuries, supported by favorable supply/demand dynamics. While it's been a challenging period to be a fixed income investor, higher yields should contribute to stronger performance going forward and offer a greater buffer against duration-oriented losses. Additionally, allocations to alternative asset classes have offered diversification relative to public markets and often helped to protect a subset of the portfolio.

Coming out of the summer months, uncertainty remains elevated both in the world and across markets. Risk assets may have gotten overly optimistic in July, but August served as a reset to align valuations with tighter fiscal conditions paired with slower growth. It's easy to get discouraged by negative performance in the short-term but on the positive end, central bank actions and naturally slower growth appear to be aiding in the fight against inflation. Paired with more reasonable valuations, markets might be better positioned for more compelling longer-term, forward returns. That said, volatility is likely to stay elevated in the near term and it's crucial that investment allocations are properly aligned with long-term goals and risk targets.



Morningstar & Hedge Fund Research, Inc.; Bond indices from Bloomberg Barclays



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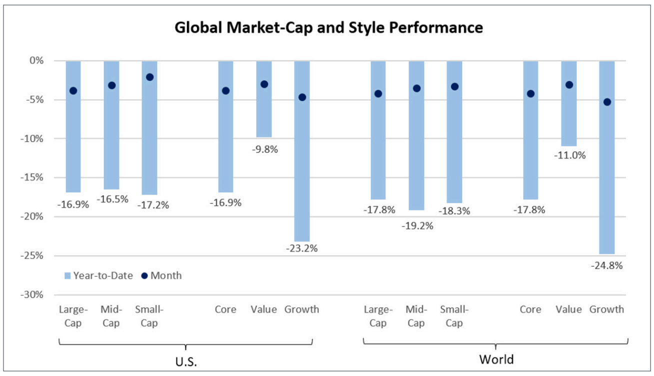

Bloomberg; U.S. indices from Russell and World indices from MSCI

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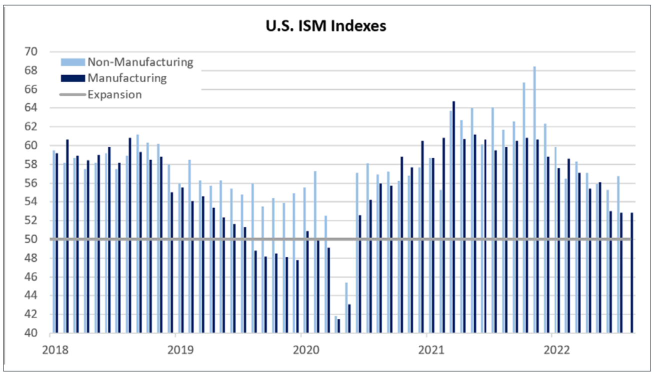

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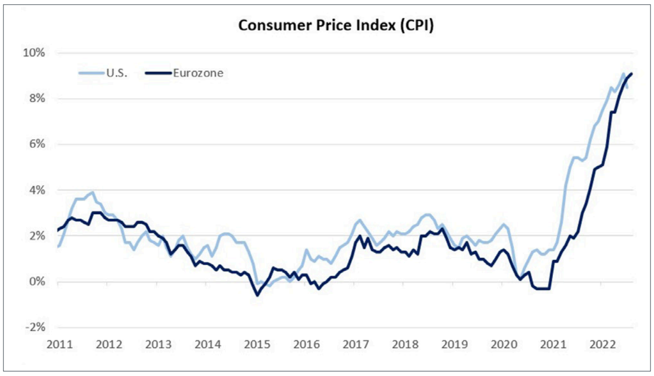
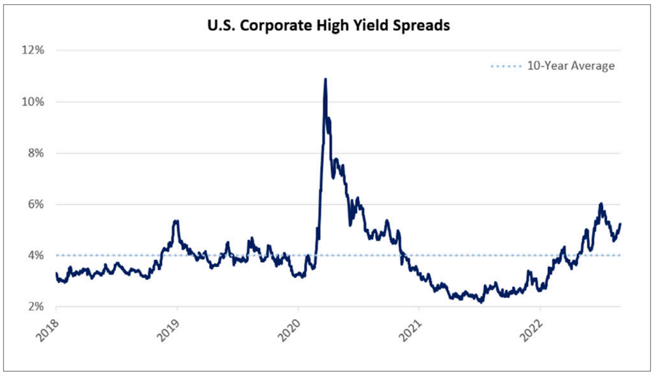


U.S. Bureau of Labor Statistics



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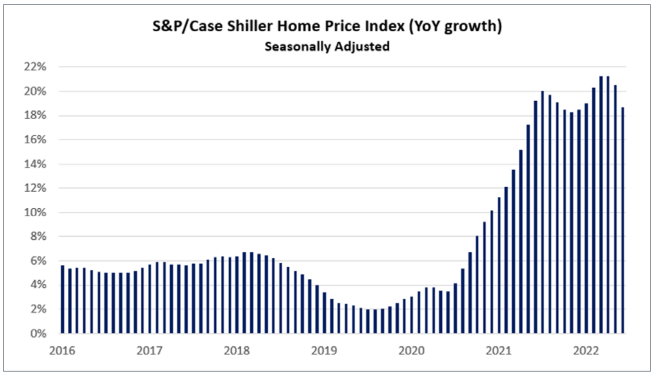
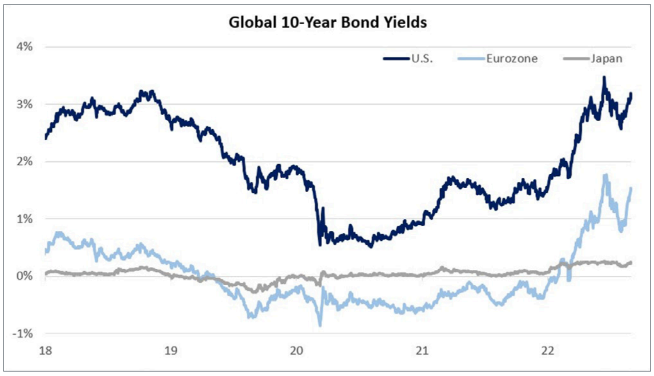


S&P/Case Shiller



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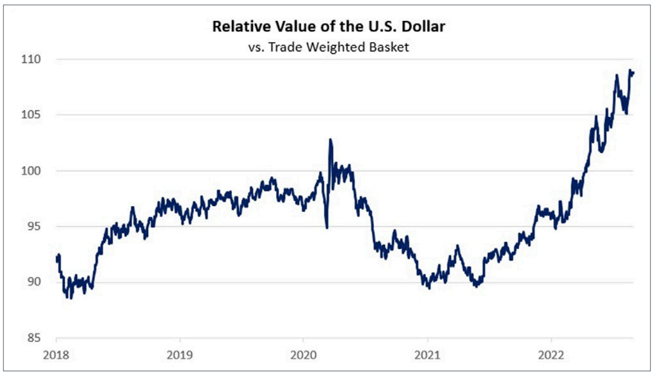

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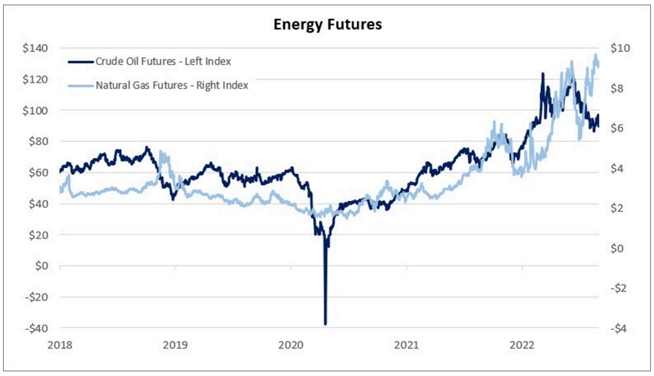

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This commentary was written by Craig Amico, CFA®, CIPM®, Senior Investment Analyst, Noreen Brown, CFA®, Director of Portfolio Management and Steven Melnick, CFA®, Senior Investment Analyst at Summit Financial, LLC., an SEC Registered Investment Adviser ("Summit"), headquartered at 4 Campus Drive, Parsippany, NJ 07054, Tel. 973-285-3600. It is provided for your information and guidance and is not intended as specific advice and does not constitute an offer to sell securities. Summit is an investment adviser and offers asset management and financial planning services. Indices are unmanaged and cannot be invested into directly. The Sustainable Spotlight portion of this report is written and provided by Seeds Investor LLC ("Seeds"). Seeds is an SEC Registered Investment Advisor which is not affiliated with Summit. The market return chart returns are represented by the following indices: large cap value by Russell 1000 Value TR Index, large cap blend by Russell 1000 TR Index, large cap growth by Russell 1000 Growth TR Index, mid cap value by Russell Mid Cap Value TR Index, mid cap blend by Russell Mid Cap TR Index, mid cap growth by Russell Mid Cap Growth TR Index, small cap value by Russell 2000 Value TR Index, small cap blend by Russell 2000 TR Index, and small cap growth by Russell 2000 Growth TR Index, international developed by the MSCI EAFE NR USD Index, Emerging Markets by the MSCI EM NR USD Index, U.S. Aggregate Bond by the BBgBarc US Agg Bond TR USD Index, U.S. Municipals by the BBgBarc Municipal TR USD Index, and Corporate High Yield by the BBgBarc US Corporate High Yield TR USD Index. The Wilshire 5000 Total Market Index measures the performance of all U.S.-headquartered equity securities with readily available price data. The Standard & Poor's 500 Index (S&P 500) is an unmanaged group of securities considered to be representative of the stock market. The Russell 2000 Index is a market-cap weighted index comprised of the smallest 2,000 companies within the Russell 3000 Index, a larger market-cap index made up of the largest 3,000 publicly traded companies in the U.S., nearly 98% of the investable U.S. stock market. The MSCI EAFE Index (Europe, Australasia, Far East) is a free float-adjusted market capitalization index designed to measure the equity market performance of developed markets, excluding the U.S. and Canada. The MSCI Europe Index captures large- and mid-cap representation across 15 Developed Markets countries in Europe, covering approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe. The MSCI Emerging Markets (EM) Index captures large- and mid-cap representation across 26 Emerging Markets countries, covering approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Japan Index captures large- and mid-cap representation of the Japanese market, covering approximately 85% of the free float-adjusted market capitalization in Japan. The Bloomberg Barclays U.S. Aggregate Bond Index is a market capitalization-weighted index comprising Treasury securities, Government agency bonds, mortgage backed bonds, corporate bonds, and some foreign bonds traded in the U.S. The Bloomberg Barclays Global Aggregate Ex U.S. Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-denominated securities. The Bloomberg Barclays Municipal Bond Index covers the U.S. dollar-denominated long-term tax-exempt bond market. Created by the Chicago Board Options Exchange (CBOE), the Volatility Index, or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Data in this newsletter is obtained from sources which we, and our suppliers believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Consult your financial professional before making any investment decision. Past performance is no guarantee of future results. Diversification/asset allocation does not ensure a profit or guarantee against a loss.

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